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Commonwealth of Massachusetts Department of Revenue



Division of Local Services

**THE MASSACHUSETTS EXPERIENCE!
HELPING CITIES AND TOWNS TO HELP THEMSELVES**

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Government Finance Officers Association
Washington, D.C.**

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**THE MASSACHUSETTS EXPERIENCE:
HELPING CITIES AND TOWNS TO HELP THEMSELVES**

Presented for the Panel on
"Financial Management During Economic Uncertainty"

81st Annual Conference
Government Finance Officers Association
Washington, D.C.

I. INTRODUCTION

A. BEFORE PROPOSITION 2 1/2

As the nickname "Taxachusetts" implies, Massachusetts cities and towns formerly had one of the highest property tax burdens in the United States. A heavy reliance on the property tax, second only to that of Alaska, was a result of strict constitutional limitations on other revenue sources available to cities and towns in Massachusetts.

In Massachusetts, the property tax supports not only general municipal administration, but also education and other services often provided by counties and districts in other states. In FY81, for example, the property tax levy accounted for 58.9% of total local revenues.

Prior to Proposition 2 1/2, municipal officials had the luxury of using expenditure-based budgeting. After adding up all the items on the expenditure side of the municipal equation, local officials balanced the budget simply by raising the property tax as much or as little as necessary. By approaching the budget in this fashion, municipal officials had no incentive to curb the increase in property taxes. The property tax levy, therefore, rose each year as local expenditures grew in Massachusetts.

In the 1970's, local spending and the property tax were climbing steadily. As the decade neared its end, taxpayers were becoming increasingly frustrated. Recognizing these concerns, the state Legislature set a 4% cap on local spending for fiscal 1980 and 1981. For the first time since World War II, the FY80 levy decreased statewide -- albeit by just 1% -- to a total of \$3 billion.

Unfortunately, this one year of belt-tightening was accomplished primarily by deferring items rather than eliminating non-essential services. The next year, however, the levy rebounded. The jump was perhaps the single largest in recent history, going from \$3 billion to \$3.4 billion -- an increase of 11.5%. These increased taxes were reflected on bills mailed to taxpayers, as fate would have it, shortly before the election of November 1980 -- and the referendum vote on Proposition 2 1/2.

In addition to the high property tax levy, Massachusetts was also plagued by poor assessment practices. Ten years ago, Massachusetts was among the worst in the country in the equitable treatment of local taxpayers and in uniformity both within and between communities. In 1976, the ratio of assessments to market values across the state ranged from below 16% to over 85%. The majority of communities assessed property at below 60% of market value; 150 of the 351 cities and towns assessed property at less than 50% of market value.

These arbitrary local assessment practices and the inequitable distribution of the tax burden which resulted added to the growing frustration of Massachusetts taxpayers. Legal challenges launched over the years eventually culminated in the 1974 "Sudbury Decision." The town of Sudbury claimed that it was at a disadvantage due to the Department of Revenue's failure to enforce full and fair valuation in Massachusetts. As the distribution of local aid is largely based on relative property wealth, the residents of Sudbury insisted that they were being discriminated against and were not receiving their fair share of state aid because equalized value estimates for communities assessing at less than full value were too low.

The Sudbury Decision demanded that local governments make major changes in the proportion of total taxes paid by different classes of property and make further shifts within these classes to end disproportionate assessing practices. Early progress was slow and was seen primarily in smaller towns where this tax shifting was less severe. The tide turned toward orderly assessment only when differential taxation by class was legalized in 1978 with an amendment to the Massachusetts Constitution.

Along with poor assessment practices and the escalation of local spending and the property tax levy, local financial management was also in need of direction. Three figures, free cash deficits, overlay deficits, and revenue deficits, show that local fiscal management was not as accurate or accountable as it could be.

- o More often referred to in other states as available funds or undesignated fund balance, free cash is the amount of funds that are unrestricted and available for appropriation. In FY81 the state totals for free cash balance and free cash deficits were \$27.6 million and \$140.9 million, respectively. Out of 351 cities and towns, 62 (17.7%) had free cash deficits.
- o The assessors in every community are required to supply in each budget an amount adequate to provide for abatements and exemptions from the property tax in that year. In communities where the amount for abatements and exemptions is insufficient, an overlay deficit is recorded. In FY81, 196 communities (55.8%) had overlay deficits. The state total for overlay deficits was \$40.2 million.
- o In the same vein, the state total for revenue deficits, or actual revenues short of projections, was \$3.4 million in fiscal 1981. Of the 351 Massachusetts cities and towns, 19 (5.4%) had revenue deficits.

2. THE ADOPTION OF PROPOSITION 2 1/2

In response to growing public concern and stimulated by the adoption of Proposition 13 in California, the Massachusetts electorate in November 1980 endorsed the statewide tax limitation referendum known as Proposition 2 1/2 with an overwhelming 59% of the vote. The passage of Proposition 2 1/2, in effect, turned the municipal equation around. With the property tax levy restricted, local officials were forced to reverse their steps in balancing the municipal budget. Rather than calculating the property tax levy needed, cities and towns must now first determine how many dollars of revenue are available for spending.

Since Proposition 2 1/2 became effective in FY82, the Massachusetts property tax levy has seen a steady decline. Measured at approximately 65% above the national average in FY77, the FY86 estimates would place Massachusetts within 10% of the national average.

The most important provision of Proposition 2 1/2 limits the ability of cities and towns to levy taxes on real and personal property. The maximum amount a municipality can raise through the property tax is limited to no more than 2.5% of the total fair cash value of personal and real property. At the time Proposition 2 1/2 was approved, many communities were taxing above this limit and were required by Proposition 2 1/2 to reduce their tax levies by 15% per year until the 2.5% limit was reached. In addition to setting a ceiling of 2.5% of full and fair valuation, Proposition 2 1/2 restricts annual increases to no more than 2.5% over the prior year's levy limit. For most communities, this limit is the more serious revenue constraint. Proposition 2 1/2, however, does allow some flexibility. It allows cities and towns to take advantage of growth in the tax base by increasing levy limits by an amount equal to the prior year's tax rate times the value of new construction. Cities and towns can also vote to levy more from the property tax in any given year than allowed by the levy limit by using overrides and debt exclusions.

Other provisions of Proposition 2 1/2 limit outside agency assessments to no more than 2.5% per year, repeal school committee fiscal autonomy and compulsory and binding arbitration for public employees, prohibit unfunded state mandates, limit motor vehicle excise to \$25 per thousand of value, and allow renters a deduction on their state income tax.

C. AFTER PROPOSITION 2 1/2

With the passage of Proposition 2 1/2, the fiscal welfare of Massachusetts cities and towns did not look promising. Local officials, community groups and citizens claimed that local spending would have to be drastically cut, if not altogether eliminated. Service cuts, lay-offs of public employees, and an inability to borrow money would be the result of this tax referendum.

The actual outcome, however, did not live up to the dire predictions. To be sure, there were service cuts and lay-offs (especially in education) but in the long-run, municipalities emerged with services essentially intact and with improved financial management practices.

In severely limiting the biggest local revenue source, Proposition 2 1/2 changed the revenue mix dramatically. In FY86, the property tax levy accounted for 47.6% of total local revenues, as opposed to 58.9% in FY81. This represents a drop of \$37.8 million, from \$3,346.8 million in FY81 to \$3,309 million in FY86. Despite the strictures of 2 1/2, FY81 was the only year in which there was a spending cut. Spending in current dollars has not decreased but increased. From FY81 to FY86, total spending has risen by \$1,268.6 million, or 22.3%. However, there has been a 13-14% decrease in the buying power of communities when adjusted for inflation.

For the most part, cities and towns have weathered the implementation of 2 1/2 and today find themselves in an improved municipal finance environment. Proposition 2 1/2 did not automatically produce these improvements. It was the state and local governments' response to 2 1/2 and other financial difficulties that laid the foundations for these improvements.

On the local level, municipalities introduced new fees along with more efficient and effective fiscal management. Local receipts from services other than the property tax, such as user fees and charges, the motor vehicle excise, and fines, have risen since FY81. The increase of approximately \$291 million from FY81 to FY86 -- some 37% -- comes even after a 62% reduction in motor vehicle excise receipts mandated by Proposition 2 1/2. (The rate dropped from \$66/thousand to \$25/thousand.)

Two factors account for this rise in local receipts. First, in the wake of Proposition 2 1/2, municipalities began to implement user fees for a range of services that had been partially or solely supported through taxes. Second, the continuing escalation of new car prices and the increase of car sales has somewhat counteracted the mandated drop in the rate and, therefore, receipts.

The state's response in the wake of 2 1/2 has been the critical factor in helping communities cope with revenue limitations. It has taken two forms: 1) increased state aid distribution, and 2) financial

management assistance. The Commonwealth of Massachusetts, recognizing the difficulties facing cities and towns because of the adoption of 2 1/2, made a commitment to help communities adjust to the new constraints and maintain the level of local services. State aid, therefore, increased. In FY81, state aid represented 23.3% of total local revenues; in FY86, this figure had risen to 29.2%. The FY87 figure for the share of local revenues is 36.8% and the state share of local spending for FY88 is expected to increase as well.

The other side of the state-local fiscal picture is seen in the charges to municipalities. These charges, or assessments, are monies which the municipalities owe the state and counties for various services. These assessments are subtracted from the receipts to show the net amount a municipality will receive in a given year. There has been a decrease in charges of \$60.4 million from FY81 to FY86. This 22.8% decrease reflects the state's assumption of a number of fees.

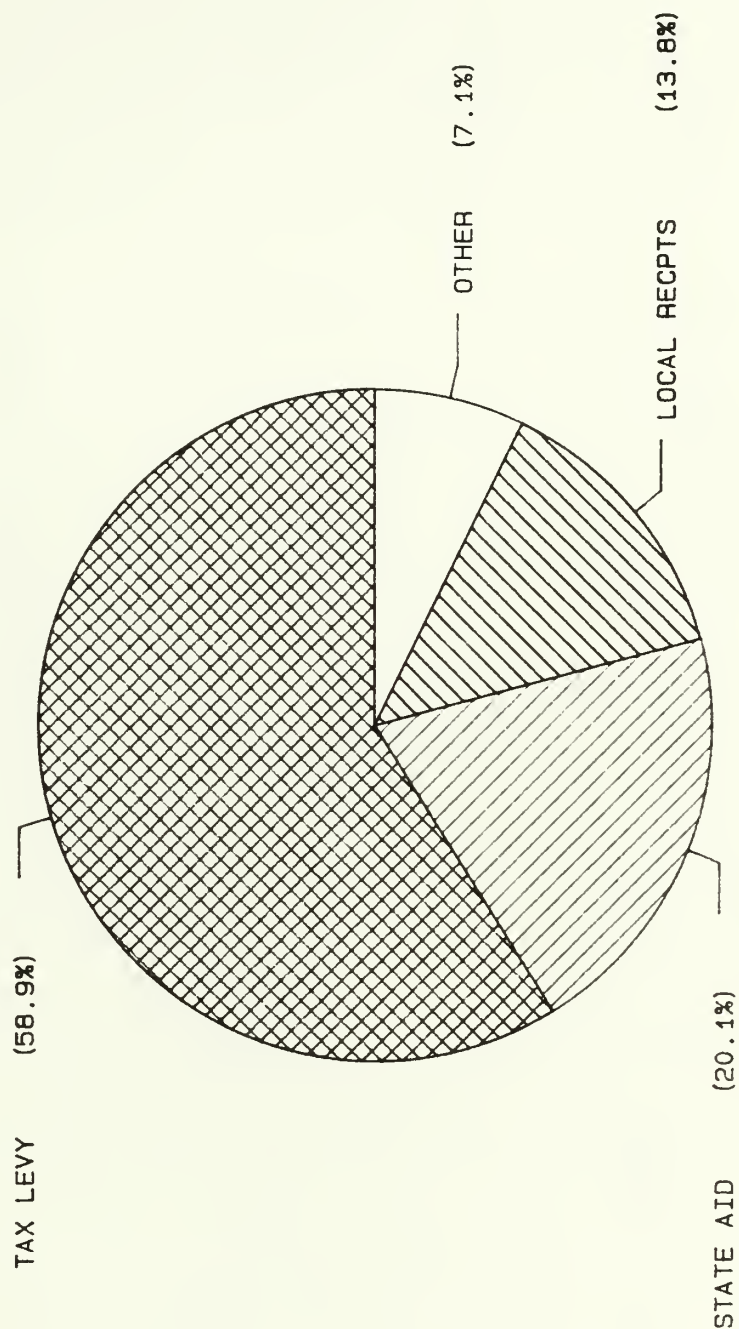
Taking place concurrently with the implementation of Proposition 2 1/2 and helping to mitigate its effects, improved assessing practices have taken hold in Massachusetts. Prior to the 1974 Sudbury Decision, the state's role in overseeing local assessment practices varied substantially from community to community and rarely met any established measures of equity or uniformity. Today, all 351 cities and towns in Massachusetts have revalued their property at 100% of fair cash value and follow a three-year cycle that is monitored, reviewed and certified by the Department of Revenue's Division of Local Services, in accordance with established standards. The increase in property values for taxation purposes has eased the upper limit imposed by 2 1/2 by increasing full and fair assessed valuation.

The commonly used statistical measure of uniformity, the Coefficient of Dispersion (C.O.D.) which measures average assessment error, showed that in 1976 only 27 communities' assessments of single family homes reflected a C.O.D. of less than 10.7%, with many reflecting C.O.D.'s of 20% or greater. Today, over 97% of Massachusetts communities have satisfied certification standards requiring property to be assessed at 90% of market value or better, and a C.O.D. for single family residential properties of 10% or less. Massachusetts is well within the national standards for assessment equity.

The performance and competence of local assessors has also vastly improved. In 1980, 44% of the assessors had never taken a course in assessing or appraising. By 1986, 98% had met assessor certification requirements. Improved assessor education leads to uniform assessment standards throughout the state, and, despite the substantial cost to local governments, the result is greater equity for our taxpayers, a stronger local revenue base for our cities and towns, and a growing recognition that good property tax administration enhances public confidence in government.

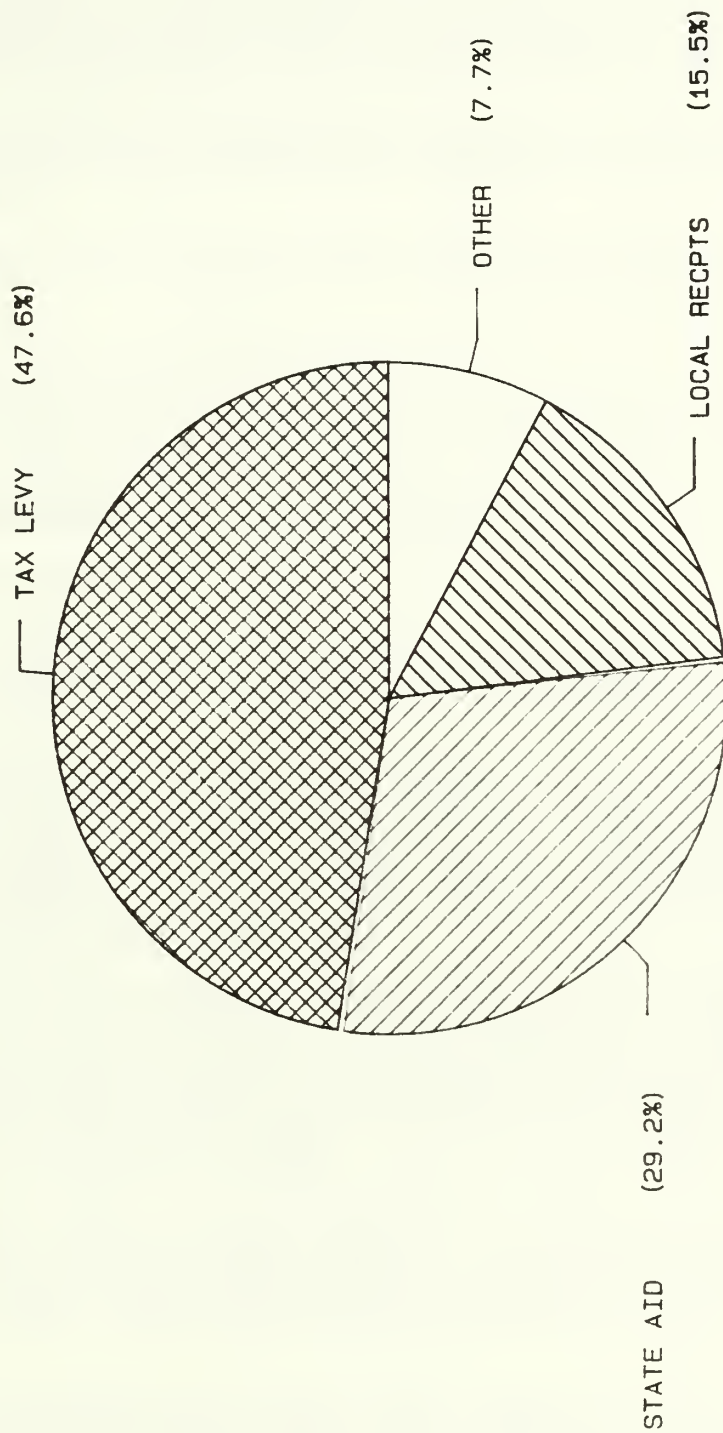
FY81 REVENUES BY SOURCE

MASSACHUSETTS CITIES AND TOWNS



FY86 REVENUES BY SOURCE

MASSACHUSETTS CITIES AND TOWNS



In addition to its work on revaluation and assessment, the Division of Local Services has increasingly shifted its role to one of technical assistance. The Division recognized the financial difficulties facing municipalities and, with the cooperation of Massachusetts cities and towns, has taken steps to promote the professionalization of local government financial management.

In order to provide a comprehensive program of technical assistance for municipal governments, the Division has initiated several major programs:

- o The development of a Computer Assisted Mass Appraisal (CAMA) system
- o The creation of a Municipal Data Bank
- o The conversion of municipal accounting systems to the Uniform Municipal Accounting System (UMAS)
- o Financial management technical assistance
- o Training for local officials

The Division's efforts to enhance local financial management are described in greater depth in the section of this report entitled The Master Plan.

The state and local governments' response to 2 1/2 and other financial difficulties has resulted in an improved municipal finance environment. These improvements can be seen in a comparison of FY81 and FY86 data. The figures for free cash deficits, revenue deficits, overlay deficits and bond ratings are given below. Data on these indicators are provided in the appendix.

- o In FY86, the state totals for free cash balance and free cash deficits were \$301.7 million and \$4.5 million, respectively. This compares favorably with the FY81 figures of \$27.6 million and \$140.8 million. While 62 (17.7%) of 351 cities and towns had free cash deficits in FY81, only 18 (5.1%) municipalities were in this category in FY86.
- o The state total for overlay deficits in FY81 was \$40.2 million; the total for FY86 was \$16.8 million. The number of cities and towns recording overlay deficits in FY81 was 196 (55.8%). By FY86, this number had dropped to 139 (39.6%) -- an improvement of 29%.
- o Despite the increase in dollar terms (from \$3.4 million in FY81 to \$14.2 million in FY86), there has also been an improvement in revenue deficits. Compared with 19 (5.4%) municipalities in FY81, 16 (4.6%) had revenue deficits in FY86.

- o With the passage of 2 1/2, municipalities were suddenly faced with a new way of approaching fiscal management, and rating agencies reacted to this uncertainty. In FY82, the year in which Proposition 2 1/2 came into effect, the bond ratings of 24 municipalities dropped and three were suspended. The road to improvement, at least where bond ratings are concerned, has been slow. From FY81 to FY86, three municipalities have been awarded bond ratings, 10 have been suspended, 39 cities and towns have seen their ratings drop, and nine have seen their ratings improve.

II. STATE'S RESPONSE TO LOCAL FISCAL CONSTRAINTS

Recognizing the difficulties cities and towns were experiencing as a result of this tax referendum, the state implemented a policy that combined a substantial infusion of state aid with fiscal management and planning assistance. These measures, to date, have been successful in helping local governments deal with the constraints of Proposition 2 1/2.

A. STATE AID

The Commonwealth of Massachusetts holds to its commitment to provide a generous share of its centrally-raised revenues to local governments in order to support local services and relieve local citizens of the property tax burden. With property tax revenues limited by Proposition 2 1/2 and the federal government backing away from its commitment to urban assistance, local governments are increasingly dependent on assistance from the state. Currently, communities rely on state aid to fund over one-third of their expenditures. State aid, which has essentially substituted for property tax increases, is the real story of what has happened in Massachusetts municipalities in the wake of 2 1/2.

From FY83 to FY88, there has been a 66% increase in direct aid. The amount of state aid has grown from \$1.70 billion in FY83 to \$2.82 billion in FY88, an increase of \$1.12 billion. Even after adjusting for inflation, these figures represent a real increase of over \$800 million in direct assistance to municipalities. Indirect aid, state assistance to local authorities and assumption of local costs, brings the total increase to 75%, or \$1.65 billion. The FY88 local aid recommendation, including both direct and indirect aid, represents an increase of \$324 million, or 9%, over FY87.

The Advisory Commission on Intergovernmental Relations reports that the Massachusetts state government shoulders 67% of state and local spending. Local governments provide the remaining 33%. The Commonwealth's share of this spending is 11 percentage points above the national average. When direct aid is included with this indirect assistance, local aid in Massachusetts is considerably more generous than that of other states.

Localities are also receiving a greater portion of state revenues. From FY83 to FY88, local governments will receive 42% of all new centrally collected growth taxes.

The success of the state aid program can also be seen in recent trends in local revenue burdens. Local aid is on the rise as a share of state and local budgets while the property tax burden is decreasing and continues to approach the national average. In FY86, Massachusetts was within 10% of the national average; a marked contrast to the FY77 figure of 65% above.

Also, the local tax and charges burden in Massachusetts is much lower than the national average. This is due to the fact that other states have traditionally relied more heavily on user charges and other fees for services than have Massachusetts communities. Once 38% above the U.S. average, the Massachusetts local tax burden in FY86 was 12% below the national average.

Although not a part of local aid, local option tax revenue from the room occupancy (or hotel-motel) and jet fuel taxes authorized by the state will reach \$51 million in FY88. Local option taxes, adopted in July of 1985, are a new source of revenue and, like state aid, help ease the constraints of Proposition 2 1/2.

This first-ever local option tax package was passed primarily to help the city of Boston out of its financial difficulties. The Department of Revenue collects the money from these taxes and redistributes it on a semi-annual basis to the cities and towns which have adopted these excise taxes.

Communities which have adopted the hotel-motel tax can charge 0-4% of the total nightly cost of the hotel room. This surcharge is in addition to the state room occupancy tax passed in 1966. Thus far, 76 communities have adopted the tax.

Fewer communities are eligible to adopt the jet fuel tax. The jet fuel tax is five percent of the average price of jet fuel for each three-month period. There is a minimum charge of five cents per gallon. To date, five communities, including Boston, have adopted this option.

The state's local aid and local option tax revenue programs have played a major role in guaranteeing the fiscal well-being of cities and towns. The commonwealth's state aid program has been successful in its attempts to maintain the quality of local services and relieve fiscal distress.

B. DIVISION OF LOCAL SERVICES -- A TRANSITION

The Massachusetts Department of Revenue, through its Division of Local Services, is the state agency charged with the responsibility for oversight, regulation, and technical assistance for the Commonwealth's 39 cities, 312 towns, 14 counties, and 170 special districts. Traditionally, the Division's emphasis has been on its oversight and regulatory functions of the local governments of Massachusetts. Those functions ensure that local government units and the finance officials under the Division's jurisdiction comply with municipal tax and finance laws and follow prescribed procedures for local financial management.

A number of developments in local government finance in recent years, however, have dramatically increased the importance of the Division's role in providing technical assistance in local finance and management. These changing features of the local financial landscape have made it more important than ever that cities and towns manage wisely. Unfortunately, few municipal governments in Massachusetts have the capacity on their own to keep abreast of state-of-the-art financial management. Small jurisdictions, in particular, lack the resources needed to examine their financial situation, diagnose both current and future problem areas, identify potential remedies and implement necessary improvements. Ironically, the technical assistance provided by private accounting and management consulting firms is financially out of reach for precisely those governments needing it most.

Seven years after Proposition 2 1/2 was approved by the voters of Massachusetts, the Division of Local Services has a vastly expanded role in local government finance and management, both as a partner and provider of technical assistance. As the state agency responsible for the interpretation and implementation of Proposition 2 1/2 when the statewide property tax limit was enacted in 1980, the Division of Local Services became keenly aware of the critical need to increase professionalism at the local level if communities were to survive the fiscal stress heightened by 2 1/2. The Division, in a perfect position to see the financial difficulties and shortcomings of local governments, has shifted its focus from oversight and regulation to technical assistance. The Division has also reviewed its traditional functions and revised its operations to fulfill those responsibilities more effectively.

In order to make this transition, the Division of Local Services initiated a tremendous education and marketing campaign designed to overcome two obstacles. The first obstacle was the reluctance of the Legislators to appropriate funds and to authorize positions needed to build and upgrade the financial infrastructure of local governments. The second obstacle was the resistance by some local officials who feared the Division would be intervening in strictly local matters. In light of Massachusetts' legacy of strong home rule and the Division's traditional regulatory and oversight role, it was difficult to convince some officials that assistance was intended to benefit communities rather than to usurp local autonomy and control.

Despite these early obstacles, a unique partnership has emerged between the state and local governments, and the Division of Local Services today is a major factor in professionalizing local government financial management. Its four units -- the Bureau of Accounts, the Bureau of Local Assessment, the Property Tax Bureau, and the Municipal Data Management/Technical Assistance Bureau -- combine to offer a comprehensive program of assistance in virtually every aspect of local government finance. As the state's authority on the "fundamentals" of municipal law, finance, accounting, assessing, and management, the Division has an important and unique strength in its technical assistance work. It has established a positive record of achievement in interpreting and implementing Proposition 2 1/2. At the same time, the Division is rapidly developing a reputation as being on the cutting edge of financial management techniques for local government. The response from cities and towns is increasingly enthusiastic; more and more communities are requesting various types of assistance. An important feature is that all assistance is provided to communities free of charge, so all cities and towns can benefit. Ongoing program development allows the Division to respond to continually changing local government needs.

C. THE MASTER PLAN

In 1983, Governor Dukakis' Advisory Task Force on the Department of Revenue called for a "major upgrading of the Department's ability to provide needed automated and technical assistance to cities and towns." In conjunction with the Task Force findings, the Division of Local Services developed "The Master Plan for Improving Local Government Financial Management." Since that time, the Master Plan has served as the Division's blueprint for technical assistance efforts. It has provided a framework for an integrated program of intervention, partnership, and problem-solving in local finance, and a clear articulation of the Division's mission: to provide a cohesive, comprehensive and sophisticated program of technical assistance for local government.

The five principal elements of the Master Plan are:

1. Development of a Computer Assisted Mass Appraisal (CAMA) system
2. Creation of a Municipal Data Bank
3. Conversion of municipal accounting systems to national standards as contained in the Uniform Municipal Accounting System (UMAS)
4. Financial management technical assistance
5. Training for local officials



1. Assistance in Property Valuation and Tax Assessment Administration:
Computer Assisted Mass Appraisal

A decade ago, Massachusetts ranked among the worst in the country in local assessment administration. Property values for tax purposes were extremely low compared to full and fair cash value, and there was no uniformity in assessment standards from community to community. These arbitrary assessment practices meant an inequitable property tax burden for Massachusetts taxpayers.

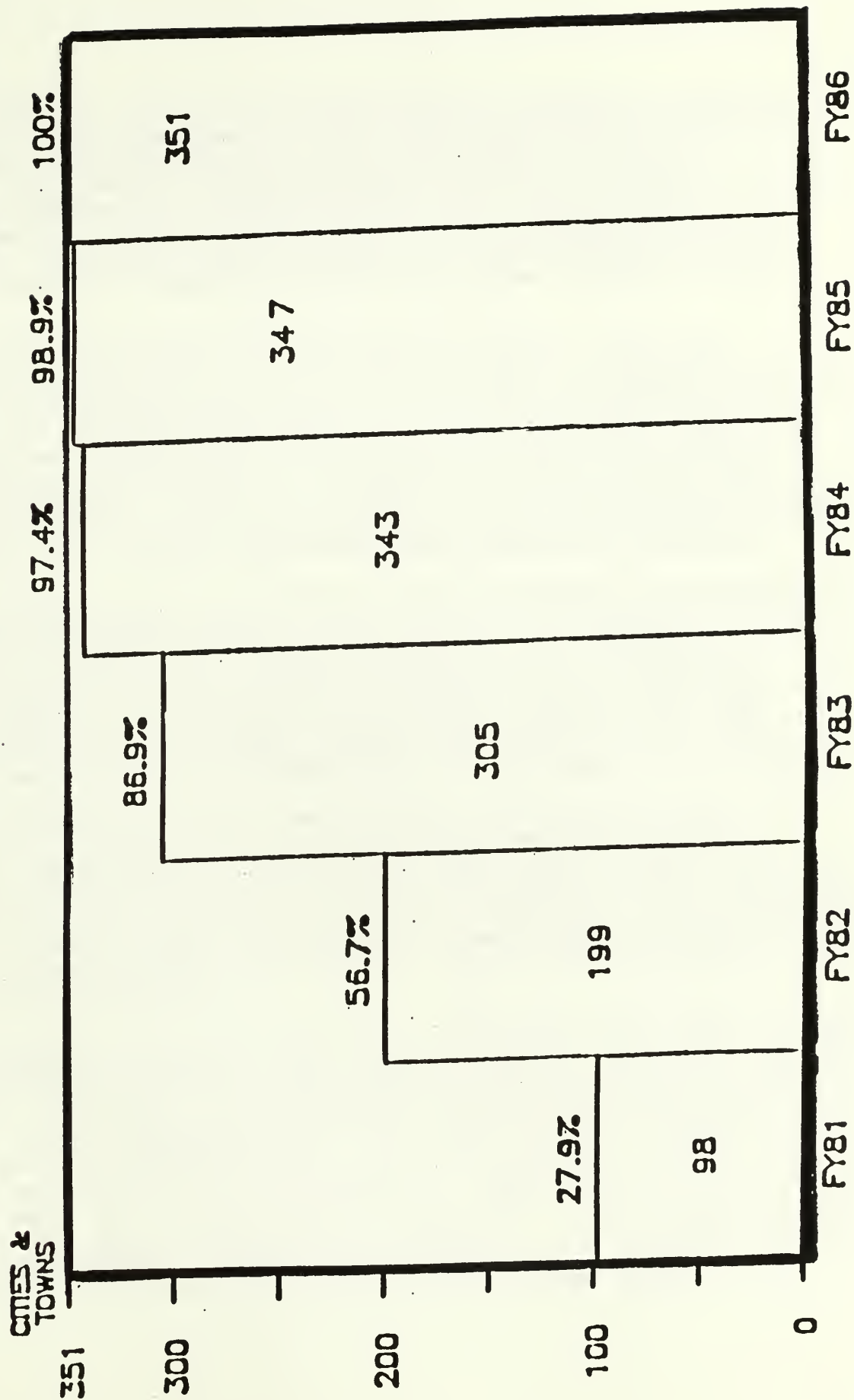
The 1974 Sudbury Decision gave the Commissioner of Revenue the power and the duty to direct local assessors to assess property at full and fair cash value. In response, a systematic plan to ensure statewide adherence to this requirement was developed and implemented by the Division of Local Services. In what was a massive, difficult and costly effort, all cities and towns were aided in completing their initial revaluations and achieving 100% valuation.

Now, to prevent deterioration of these hard-earned values, the Commissioner of Revenue is required to review local assessments every three years and to certify that they reflect full and fair cash value. Complying with this triennial certification requirement, though critical to keep values current and assessments equitable, is a costly and time-consuming task, particularly for the state's smaller communities. Noting both the importance and high costs of maintaining uniform property values, the Division began planning for the implementation of the CAMA program.

An advisory committee of local officials was established early on in the project to work with the Division of Local Services and consultants from the International Association of Assessing Officers (IAAO) in developing the overall plan. This process led to a detailed report prepared by the IAAO, which recommended features of a CAMA system tailored to handle a variety of administrative as well as appraisal tasks. Emphasis was also placed on the design of CAMA as a local, rather than a state, system which would cater to the Massachusetts legacy of strong, autonomous municipal governments and would foster self-sufficiency among municipal officials in administering local taxes. From that report, specifications were developed for the system, followed by a Request for Proposals issued in July 1985.

A long and thorough review of those proposals culminated in June 1986 with the selection of SIGMA Systems Technology, Inc. to develop software, training programs and instructional material for the system. Two pilot communities, selected from nearly 90 that applied, will thoroughly test the system, and CAMA will then be made generally available to other interested communities. There is widespread interest in participating in the CAMA program in other cities and towns, and the Division of Local Services is arranging the implementation schedule for Fiscal 1987 and thereafter.

MUNICIPALITIES ASSESSING AT FULL AND FAIR CASH VALUE AS CERTIFIED BY DOR



Specifications for the new system call for software capable of handling all the data management, valuation, data analysis and tax administration that must be performed in Massachusetts local government. The system is being designed for average-sized Massachusetts communities, those with between 1,000 and 10,000 parcels of real property, or between 75% and 85% of all communities in the state. These communities are generally not large enough to bear the full cost of acquiring computer-assisted appraisal systems on their own.

The various functions will be modular in nature and allow considerable flexibility in recognizing the special characteristics of each community's property base. All three of the recognized approaches to value -- cost, market and income -- will be available. The data-analysis module will perform the various statistical tests used to measure assessment performance. An important feature of the tax administration module will be its ability to create user-defined forms and reports. It will also allow for tax billings and collection from the same data base, saving significant local effort and expense.

The software is being designed for use on various microcomputers that will allow multiple users. There are several brands of microcomputer hardware now available that meet this requirement. Key features of the system will be its flexibility, ease of use for non-data processing professionals and adaptability to individual communities' needs. By catering to individual communities, CAMA supports the principles of local autonomy and fosters self-sufficiency among municipal officials in administering local taxes.

Municipalities wishing to participate in the program will be responsible for providing the necessary microcomputer hardware. According to specifications, that should cost less than \$12,000. Software, training and technical assistance in implementing the system will then be provided free of charge by the Department of Revenue. The Division of Local Services will also be a resource for cities and towns in helping to maintain the system at the local level if changes occur in key assessing personnel.

A state-developed CAMA system will enable local assessors to keep pace with rapidly-increasing market values, improve assessment accuracy and uniformity, and extend the periods between costly house-to-house revaluations. Currently, many communities must rely heavily on outside contractors for property valuation. The small size of Massachusetts municipal assessing jurisdictions and the significant up-front costs of CAMA-system development have prevented most communities from acquiring systems on their own. State assumption of these costs will bring the benefits of CAMA within reach of all communities. This state funding of program development, training and follow-up has a projected cost of \$500,000 -- plus the salaries of the six-person CAMA staff.

With CAMA, the current per parcel costs of \$30 to \$40 for a full revaluation and \$10 to \$15 for updating values are expected to be reduced to \$14 for a full revaluation and \$4 for updating. When CAMA is successfully implemented in a substantial number of communities, the IAAO estimates that the statewide cost of residential valuation maintenance alone could be reduced by 60% -- from \$91.5 million to \$37.5 million -- over a multi-year period.

2. Data for Decisions: The Municipal Data Bank

The Municipal Data Bank is a mainframe computer data base containing extensive comparative financial information on the Commonwealth's 351 cities and towns. The Data Bank was established within the Division's Municipal Data Management and Technical Assistance Bureau (MDM/TAB) in 1983. Using the many financial reports filed with the Division each year, it provides comprehensive and comparative financial information free of charge to local government officials for budgeting and financial planning purposes.

This computerized data bank is a key step in improving the quality and usability of financial information for local officials. Today, while still constantly evolving to reflect improvements in financial reporting and new data needs, the Data Bank is the cornerstone of the Division of Local Services' technical assistance program. This centralized storage of information is increasingly used by local officials and others to provide valuable information for decision-making. The Municipal Data Bank assists local officials in measuring the efficiency and effectiveness of local government and in measuring the relative fiscal stress of cities and towns.

A wide variety of reports from the Data Bank are available to communities and other users. A standard packet is mailed to officials in each community every year with other customized reports available upon request. Data on municipal government includes: municipal revenues and expenditures, debt, cash management, tax base, local aid and demographics. On the county level: data cover receipts, payments and debt. The reports can be presented in time series with data from one municipality presented in chronological order for specific fiscal years. Other reports are done on a comparative basis, with any or all of the state's 351 communities used for reference in one or more financial or demographic categories. Those include: equalized valuation, equalized valuation per capita, school enrollment, population, land area and population density.

In addition to their ongoing work to update the information contained in the data base, Data Bank staff members work with experts throughout the Division to develop specialized reports that will be of value to local officials. Among those developed to date are: local financial trends, budget development, user fees, planning and managing debt, credit ratings, and overviews of a community's fiscal condition.

The Data Bank is the foundation for the Division's financial management technical assistance to cities and towns. When Division staff members begin a project in a community, reports from the Data Bank provide a useful starting point. The materials present a financial and demographic profile of the community and outline trends that can reveal problem areas or point to issues requiring deeper investigation.

3. Improved Accounting and Financial Reporting: Uniform Municipal Accounting System

Since Fiscal 1982, the Commonwealth has allocated roughly \$2 million to bolster the Local Services Division's efforts in local government accounting and to provide materials, technical assistance and training of municipal staff to facilitate conversion of city and town accounting systems to the Uniform Municipal Accounting System (UMAS). The purpose of this wide-ranging conversion project is to provide more relevant and complete financial information to local officials in order to promote more effective local management.

UMAS is a comprehensive and practical accounting system conforming to Generally Accepted Accounting Principles (GAAP), regarded as the professional standard for accounting. An essential feature of UMAS is that it moves communities from a cash-based to an accrual-based accounting system. Not only is GAAP accounting advisable from the standpoint of sound financial reporting and management, it is also encouraged by Moody's, Standard & Poor's and other members of the financial community on whom local governments depend.

The Department of Revenue's program, a giant step forward in municipal accounting in Massachusetts, makes it possible for cities and towns to convert to UMAS with the support services of the Bureau of Accounts provided at no charge. Among the advantages UMAS offers are: demonstrated accountability to taxpayers and the financial community; valuable, easy-to-understand presentation of finances to officials responsible for municipal budgeting and financial planning; potential for improved credit ratings, with resulting savings in interest costs; greater uniformity and therefore greater comparability of data among cities and towns, including those in other states; less complexity in the preparation of financial statements and footnote disclosures; and an enhanced revenue data base that provides each community with more detailed accounting information for improved monitoring.

In 1982, a detailed accounting manual with complete conversion procedures was issued by the Division of Local Services. As a result, approximately 50 communities were able to carry out the conversion. Their experience indicated, however, that the process was so complex that most communities would be unable to implement the system without substantial outside assistance. Funding to provide this assistance was provided by the Governor and the Legislature, and 54 communities were

selected from over 100 that applied to participate in an initial round of conversions. An additional 40 communities were selected for the subsequent round of conversions in Fiscal 1986 and 1987. The conversions are performed by independent public accounting firms, which work with the participating communities under contract to and direction of the Division of Local Services. To date, 140 communities have converted to UMAS.

A critical feature of UMAS is the ongoing support that will be provided to communities by Division staff both during and after the conversion process. The Division will provide the continuity needed to keep the system updated and running regardless of local staffing changes. Like all Local Services assistance, this will be offered free of charge to communities. Approximately \$2-3 million in state funding has been provided for the materials, technical assistance and training needed for the UMAS program.

Many more communities have expressed an interest in converting their accounting systems to UMAS. Over the next several years the Division plans to assist those remaining communities in making the conversion.

4. Management Consulting At No Charge: Financial Management Technical Assistance

Drawing on the broad educational and professional background of staff throughout its four bureaus, the Division of Local Services offers consulting services to cities and towns on a wide range of municipal finance topics. In both scope and quality, these services are equivalent to those provided by Big Eight CPA firms and other management consultants, but DOR's assistance is provided to communities free of charge. The service is further enhanced by the Division's unique knowledge of the many local finance functions it oversees and regulates.

Two kinds of assistance are offered to address different problems: comprehensive financial management analysis and targeted assistance in specific problem areas.

Financial Management Analysis - When a city or town needs information to gain a better understanding of its overall financial condition, the Division performs a financial management analysis. That is an in-depth study to determine the community's financial strengths and weaknesses. A project coordinator assembles a team of finance professionals from throughout the Division of Local Services. This team includes experts in municipal law, assessing, accounting, management, and policy development. Working closely with local finance officers, the team reviews various aspects of the municipality's financial management systems and operations. It also studies revenues, operating expenditures, reserves, fixed costs, debt, and economic and demographic factors that affect the local government. The staff then makes

recommendations to local officials -- generally in both a written report and an oral presentation -- about how to resolve identified problems. Throughout the process, the emphasis is on working cooperatively with the local officials to diagnose problems and formulate solutions that are administratively and politically feasible.

For example, at the request of the Board of Selectmen, a technical assistance team conducted a financial management analysis for the town of Groton. The analysis covered the budget process and analysis of revenues, expenditures and other factors influencing the town's financial condition. In its report, the Division recommended:

- o Centralization of budget management in the Selectmen's Office for greater accountability;
- o Establishment of a formal budget cycle with a later Town Meeting date to allow time for a carefully coordinated decision-making process; and
- o Specific organizational changes in the Assessors' Office to expand its capabilities and improve the timeliness of tax billing.

More and more, the Division has been involved in full-scale financial management reviews of communities in crisis (including Boston). In two cities, Lynn and Chelsea, the Division spearheaded financial restructuring programs involving local officials, the Legislature, independent consultants and other concerned state agencies in addition to the Department of Revenue.

The recently completed Lynn program involved formation of a home rule petition, a state loan, establishment of a Finance Control Board to monitor financial restructuring in the School Department, centralization of financial responsibility in a Chief Financial Officer and reorganization of the Assessors' Office. Helped by the plan, the city experienced at the end of Fiscal 1986 its first surplus in a number of years.

Using the Lynn program as a model, the Division has helped to formulate another plan to assist the city of Chelsea, which was on the road to insolvency, to address its short- and long-term financial problems. This effort is still underway.

Targeted Assistance for Specific Problems - Division staff has also helped local governments implement specific financial management improvements. A request for this kind of targeted assistance may be the result of a financial management analysis, or it may come directly from a local official who has identified a specific financial management problem. Selected examples of technical assistance projects illustrate the range of issues that can be addressed:

- o Capital Improvement Planning: assistance in developing a planning structure, central authority, and scheduling infrastructure improvements; also, analysis of financing options for particular capital projects;
- o Purchasing: assistance in developing process, forms and authority for municipal purchasing;
- o Health Insurance Cost Containment: assistance in controlling health care costs;
- o Review of Assessing Organization and Procedures;
- o Revenue and Expenditure Projections; and
- o Costing of alternative ways to provide specific services.

On an ongoing basis, the Division also provides extensive technical assistance to communities in the full range of more "traditional" functions for which the Division has oversight responsibility, such as balance sheet preparation, bank reconciliations and tax rate setting.

Expanding Scope of Technical Assistance - Because Division personnel work regularly with cities and towns all over the state, they can identify financial management problems common to many communities and work to formulate solutions through administrative or legislative changes. These efforts in turn lead to more "hands-on" technical assistance activities to help communities adapt to changes in policy and procedures.

For example, new legislation sponsored by the Department of Revenue to control compensating balance regulates the form of local governments' banking regulations. The law also defined a new responsibility for the Division of Local Services in monitoring agreements between banking institutions and communities and in assisting communities to improve their cash management practices. The Department has also recently sponsored legislation to permit increased use of enterprise fund accounting for self-supporting municipal departments and is stepping up assistance to communities in establishing enterprise funds. Currently, Local Services is drafting legislation to allow cities, towns and districts to issue estimated tax bills on a timely basis, thereby saving potentially millions of dollars in borrowing costs. Another area the Division is currently exploring is technical assistance to local officials in the procurement of office automation systems, a growing concern especially for the state's smaller communities.

5. Training

A central and increasingly important mission of the Local Services Division, and one that integrates all the substantive elements of the Master Plan, is its training program. Each year, the Division offers a variety of courses, seminars and workshops designed to promote effective financial management practices, preview state of the art management tools and techniques, inform local officials of new developments and train newly-elected officials in the basics of their jobs.

Many of these programs are developed and sponsored in cooperation with local officials' professional organizations. In addition to drawing on the expertise of Division staff, instruction may be given by outstanding local officials or by professionals from private firms specializing in government finance and management. These training programs are offered in locations throughout the state to give officials from all cities and towns the opportunity to broaden their knowledge.

The Division's courses vary widely in scope and depth of coverage. One course, "Assessment Administration: Law, Procedures and Valuation," has become a requirement for all assessors under Massachusetts law and is attended by approximately 250 assessors each year. This is the longest and most in-depth program offered, covering the basics of all assessing functions and culminating in a certification exam. With the success of this course, the Division recently developed a companion program on assessment office procedures for assessing clerks and other office staff, attended by roughly 100 people per year. Similar comprehensive courses are also offered for treasurers and collectors. Course materials include detailed procedure manuals for each group of officials. These manuals are made available to every city and town hall to provide new officials with a thorough grounding in their duties and to give experienced officials a useful reference source.

The Division's shorter training sessions include a required workshop for assessors on classification, attended by approximately 175 officials a year. There is also an annual technical assistance workshop series on selected municipal finance topics. Past topics have included "Costing and Pricing Municipal Services," "Using the Municipal Data Bank," and "Forecasting Municipal Revenues and Expenditures." A detailed workbook and case study are developed in conjunction with each seminar series.

As new developments occur in municipal finance, the Division presents special training programs to alert, inform and equip local officials so that they can cope with their changing responsibilities. Examples of seminars offered in Fiscal 1987 include "What's New in Municipal Law?", attended by 250 local officials in two locations, "What Local Officials Really Should Know About Tax Reform," attended by 450 officials, and the "Public Cash Management Workshop," attended by 150 local officials.

Altogether, the Division of Local Services provided training to approximately 1800 local officials during Fiscal 1986 alone. Behind these significant efforts to spread information and increase professionalism at the local level lies the firm belief that today's training is an effective way to prevent tomorrow's fiscal problems.

III. CONCLUSION

The goal of the Division of Local Services' Master Plan is to help cities and towns help themselves by providing local finance officers with the tools and techniques of solid administrative and financial management. Enhanced professionalism at the local level promotes the efficient, effective and equitable use of local resources -- and helps ensure that scarce resources at the state level are targeted where they are genuinely needed. Management improvements benefit both the consumers of state and local public services and the taxpayers who pay for those services.

The Division's strides in improving local government financial management over the past three years would have been impossible had not the Governor and the Legislature made significant additional resources available. In Fiscal 1985, the General Court approved a budget that included \$1.6 million in contract funds to begin implementing the Master Plan. An additional \$1.5 million in contract funds and \$500,000 for the creation of 24 new positions were included in Fiscal 1986. Support has continued in Fiscal 1987 with \$1.4 million in contract funds and ten new positions.

Thanks to a substantial infusion of state aid and the new initiatives implemented by the Division of Local Services, improved assessment practices and more professional fiscal management are becoming the norm rather than the exception. Despite the Division's successes to date, future challenges remain.

State aid has made it possible for communities to weather the constraints of Proposition 2 1/2 and to maintain their levels of local service. This aid, however, may also be masking the urgency with which the municipalities must address the major issues presented by 2 1/2 -- the level of spending and services desired by the taxpayers. Local aid has postponed, at least, much of the discussion about priorities that had been expected to take place.

There are two areas of concern when dealing with priorities and levy limits. One is the deferral syndrome -- the tendency to postpone infrastructure expenditures and maintenance to meet budget constraints. This can only mean higher costs in the future. It is somewhat encouraging, though, that when the voters do accept an override or do agree to exclude debt from their levy limit, most often the money is intended for capital purposes. This deferral concern is recognized by political leaders who advocate the creation of an infrastructure bank.

The second area concerns the loss in management capability which many cities and towns have experienced. Some communities which had developed strong financial staffing eliminated some mid-level management positions in order to trim the budget. Other mid-level managers have fled to the private sector, given the limited rewards and the increasing demands in the public sector. Yet this is the very time when we need people trained to set priorities, develop alternatives, identify operational and system weaknesses, and do long-range planning. The Division of Local Services is moving positively into developing the technical assistance capacity to assist cities and towns to fill this gap in expertise. The Division's strong public service orientation is designed to promote increased professionalism and innovation in municipal management.

Another challenge lies ahead in providing technical assistance to cities and towns in evaluating and procuring appropriate management information systems. We are also striving to expand the scope of the Division's educational programs to train local executive officers -- mayors, managers, selectmen -- in the basics of municipal finance.

Finally, there is a public service priority that may be rarely considered by those in the public sector: the idea of marketing our services. We too often take it for granted that the citizens know and appreciate what we do and that there is little we can do to enhance that knowledge and appreciation. At the Division of Local Services we are attempting to take more direct initiatives in informing the citizenry, in explaining the basis for our municipal service delivery costs, and in sharing with them the daily choices we face.

The Division of Local Services is integrating these new priorities into an effective program of assistance to local government. No community can receive better help than the community that helps itself. It has already been shown that such a program can make a difference in the fiscal health of our cities and towns -- and a difference in the fiscal health of the Commonwealth.

The mandate for this program is not unique to Massachusetts. The desire for more accountable local government and the demand for tax or expenditure controls are a national trend. Whether faced with drastic property tax reduction measures or selective tax reduction controls, there is much to be learned from the unique partnership between the state of Massachusetts and its local governments and the Division of Local Services' innovations in fiscal management assistance.

APPENDIX

MAJOR PROVISIONS OF PROPOSITION 2 1/2

- o **LIMITS** the municipal property tax levy to:
 - o No more than 2.5% of the total fair cash value of personal and real property
 - o No more than a 2.5% increase over the prior year's levy limit
- o **PROVIDES** for local overrides of the levy limit and a local option to exclude certain debts from the limit
- o **LIMITS** certain outside agency assessments to the community to an increase of no more than 2.5% per year (except for services added by request)
- o **REPEALED** school committee fiscal autonomy and compulsory and binding arbitration for public employees
- o **PROHIBITS** unfunded state mandates
- o **LIMITS** motor vehicle excise to \$25 per thousand of value
- o **ALLOWS** renters a deduction on their state income tax

PRE- AND POST-PROPOSITION 2 1/2 DATA

PROPERTY TAX LEVY

	<u>\$ (million)</u>	<u>% total revenue</u>	<u>% change from prior year</u>
FY81	\$3,346.8	58.9	----
FY82	\$3,035.6	54.5	-9.3
FY83	\$2,977.9	51.3	-1.9
FY84	\$2,994.9	49.8	0.6
FY85	\$3,126.0	48.4	4.4
FY86	\$3,309.0	47.6	5.9

PROPERTY TAX LEVY FY81 AND FY86

	<u>\$ (million)</u>	<u>% change</u>
FY81	\$3,346.8	--
FY86	\$3,309.4	-1.1

EQUALIZED TAX RATES

FY81	\$37.91
FY82	34.38
FY83	23.48
FY84	23.83
FY85	20.86
FY86	21.97*
FY87	15.77**

* calculation based on 350 out of 351 communities reporting in FY86

** calculation based on 290 out of 351 communities who have set their FY87 tax rate

Equalized tax rates are calculated by dividing a community's actual tax levy for a given fiscal year by that community's equalized valuation (EQV) and multiplying by 1000. This calculation gives the tax per \$1000 of value.

Equalized valuations (EQVs) are a measure of the relative property wealth of Massachusetts cities and towns. EQVs are one of the factors in the allocation of local aid and the assessment of county costs and other state charges.

The Department of Revenue determines EQVs through statistical comparisons of assessments with sales in various property classes, along with sample property appraisals throughout the state. The EQVs reflect changes in the value of existing property as well as the value of new construction. EQVs are updated biennially.

LOCAL RECEIPTS, STATE TOTALS FY81 & FY86

	<u>\$ (million)</u>	<u>% change</u>
FY81	\$785.1	--
FY86	\$1,076.3	37.1

TOTAL SPENDING

	<u>\$ (million)</u>	<u>annual % change</u>
FY81	\$5,681.6	--
FY82	\$5,574.4	-1.9
FY83	\$5,807.1	4.2
FY84	\$6,011.8	3.5
FY85	\$6,456.3	7.4
FY86	\$6,950.2	7.6

CHARGES TO MUNICIPALITIES

	<u>\$ (millions)</u>	<u>% change</u>
FY81	\$264.5	--
FY86	\$204.1	-22.8

BOND RATINGS

	<u>FY81</u>	<u>FY82</u>	<u>FY86</u>
AAA	6	5	8
AA1	0	0	2
AA	42	32	32
A1	48	45	33
A	111	116	114
BAA1	8	8	8
BAA	12	17	20
BA1	0	0	1
BA	0	3	2
TOTAL	227	226	220

FREE CASH

	<u>Free Cash Balance</u>	<u>Free Cash Deficit</u>
FY81	\$27,555,627	\$140,871,866
FY82	\$52,213,843	\$116,711,847
FY83	-\$160,669,208	\$332,862,519
FY84	\$146,754,814	\$59,174,265
FY85	\$231,622,966	\$25,544,929
FY86	\$301,862,967*	\$4,530,977*

* As of 4/15/87, 331 out of 351 communities had certified free cash.

REVENUE DEFICITS

FY81	\$3,412.5
FY82	\$15,799.7
FY83	\$19,111.2
FY84	\$26,585.1
FY85	\$26,518.7
FY86	\$14,192.7*

* Total for 350 of 351 communities

OVERLAY DEFICITS

FY81	\$40,178.2
FY82	\$74,143.3
FY83	\$15,306.4
FY84	\$15,664.8
FY85	\$22,030.7
FY86	\$16,784.0*

* Total for 350 of 351 communities

CAMA: COMPUTER ASSISTED MASS APPRAISAL

In administering the local property tax fairly and effectively, Massachusetts assessors are required to assess property at 100% of full and fair cash value, update values every three years, and achieve a mandated degree of assessment uniformity. The Department of Revenue is developing a Computer Assisted Mass Appraisal (CAMA) system to give local assessors the tools they need to comply with these requirements at reasonable cost. CAMA will be available to all cities and towns that wish to adopt it and that meet minimum standards for implementation. Software, training, and technical assistance will be provided, free of charge, by the Department of Revenue.

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UMAS: UNIFORM MUNICIPAL ACCOUNTING SYSTEM

The Commonwealth has allocated over \$2 million since Fiscal Year 1982 to provide materials, technical assistance, training of municipal staff, and additional capacity within its own ranks to facilitate the conversion of city and town accounting systems to the Uniform Municipal Accounting System (UMAS). The purpose of this wide-ranging conversion project is to promote practices that bring more relevant and complete reporting and financial information to local officials -- resulting in more effective local management.

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MUNICIPAL DATA BANK: IMPROVED FINANCIAL INFORMATION FOR LOCAL GOVERNMENT

The Municipal Data Bank is a mainframe computer data base containing extensive comparative financial information on the Commonwealth's 351 cities and towns. The Data Bank was established within the Division of Local Services' Municipal Data Management and Technical Assistance Bureau (MDM/TAB) in 1983 to provide financial management information to local government officials for budgeting and

financial planning purposes. Data are provided in the form of printouts from the data base and may also include graphic presentations, on request.

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FINANCIAL MANAGEMENT ANALYSIS AND ASSISTANCE

In the 1980's, Massachusetts local government finance officials face new and complex problems -- some the direct or indirect result of Proposition 2 1/2, others the consequence of statewide or national economic conditions. To help communities address these problems, and to promote professional financial management in Massachusetts local government, the Division of Local Services' Municipal Data Management and Technical Assistance Bureau (MDM/TAB) offers consulting services to cities and towns on a wide range of municipal finance topics. All management analysis and assistance is provided at no charge to the community.

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TRAINING

The Division of Local Services' training program embraces all the substantive elements of the Master Plan. Each year, the Division offers a variety of courses, seminars and workshops designed to promote effective financial management practices, preview state of the art management tools and techniques, inform local officials of new developments and train newly-elected officials in the basics of their jobs. These programs are offered in locations throughout the state to give officials from all cities and towns the opportunity to broaden their knowledge.

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